

Message Text

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ACTION EB-07

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DODE-00 FPC-01 H-01 INR-07 INT-05 L-03 NSAE-00 NSC-05
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C O N F I D E N T I A L QUITO 8992

E.O. 11652: GDS
TAGS: EINV, ENRG, PFOR, EC
SUBJECT: GULF-GOE NEGOTIATIONS

1. SUMMARY: VARGAS TOLD GULF LAST NIGHT (DECEMBER 28) THAT THE RETROACTIVE TRANSFER DATE OF DECEMBER 31 WOULD BE UNACCEPTABLE TO THE GOE, AND THAT CEPE WOULD DEFINITELY ASSUME TITLE TO GULF'S OIL ON THAT DATE. GULF IS NOW PREPARING DRAFT DECREE WHICH I WILL GIVE TO POVEDA THIS AFTERNOON AND ATTEMPT TO PERSUADE POVEDA THAT GULF SHOULD REMAIN UNTIL A FINAL AGREEMENT HAS BEEN MADE. PROSPECTS FOR AN AGREEMENT LOOK DIM AT THIS POINT. END SUMMARY.

2. GULF VICE PRESIDENT LUMPKIN CALLED ON ME THIS MORNING TO REPORT RESULTS OF LAST NIGHT'S MEETING WITH VARGAS, SUBSECRETARY OF NATURAL RESOURCES PARODI, AND SUBSECRETARY FOR FINANCES JARAMILLO. AS EXPECTED, RESULTS OF MEETING WERE DISCOURAGING.

3. VARGAS AGREED TO CONSIDER ELIMINATING THE \$82 MILLION FIGURE FROM THE DRAFT DECREE AND INCLUDING THE QUITCLAIM IN THE AGREEMENT TO BE SIGNED BETWEEN THE TWO PARTIES. THE TERMS AND METHOD OF PAYMENT WERE LEFT PENDING.
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4. WHEN GULF PROPOSED THAT IT CONTINUE AS A MEMBER OF THE CONSORTIUM UNTIL THE SIGNING OF A FINAL AGREEMENT, WHEN THE TRANSFER COULD THEN BE MADE RETROACTIVE TO DECEMBER 31, JARAMILLO SAID THE GOVERNMENT MIGHT CONSIDER EXTENDING NEGOTIATIONS UNTIL THE FIRST WEEK IN JANUARY, ALTHOUGH THE

GOE WOULD STILL ISSUE ITS DECREE AS OF DECEMBER 31. GULF WOULD BE ALLOWED TO LIFT DURING THIS WEEK, BUT ONLY BY MEANS OF A CONFIRMED LETTER OF CREDIT. VARGAS ADDED THAT IT WOULD BE "IMPOSSIBLE" FOR GULF TO REMAIN A MEMBER OF THE CONSORTIUM AND THAT CEPE WOULD DEFINITELY ASSUME TITLE OF GULF'S OIL ON DECEMBER 31.

5. GULF IS NOW PREPARING A DECREE WHICH WILL INCLUDE TWO AGREEMENTS: THE FIRST AGREEMENT IS TO BE SIGNED ON DECEMBER 31 AND PROVIDES THAT GULF WILL REMAIN A MEMBER OF THE CONSORTIUM UNTIL THE SIGNING OF A FINAL AGREEMENT. THE SECOND PART WILL PROVIDE THE BASIS FOR THE FINAL AGREEMENT BY SPECIFYING THE CONDITIONS FOR FINAL TRANSFER OF GULF'S ASSETS.

6. DATE OF TRANSFER PRIMARILY FOR COSMETIC REASONS, WILL BE MADE RETROACTIVE TO DECEMBER 31. I TOLD LUMPKIN THAT, ALTHOUGH I WAS WILLING TO TRY TO SELL POVEDA ON GULF'S DRAFT DECREE, I BELIEVED IT UNLIKELY THAT THE GOE WOULD AGREE TO SUCH A PROPOSAL UNLESS CEPE COULD ACTUALLY TAKE POSSESSION OF GULF'S SHARE OF THE OIL. AFTER MUCH DISCUSSION REGARDING THE TERMS OF A FINAL AGREEMENT ACCEPTABLE TO GULF THAT COULD BE SIGNED DECEMBER 31, LUMPKIN FINALLY SAID THAT GULF COULD NOT WITHDRAW WITHOUT SOME GUARANTEE THAT THE GOE WOULD ACTUALLY PAY GULF THE AMOUNT DETERMINED BY AUDIT AND NOT LEVY EXCESSIVE CLAIMS AGAINST THIS AMOUNT.

7. I WILL MEET WITH POVEDA THIS AFTERNOON TO PRESENT GULF'S DRAFT DECREE, AND ONCE AGAIN WARN POVEDA OF GULF'S SUSPENSION OF DEPOSITS, A POSSIBLE EMBARGO ON CEPE SALES, CONFIDENTIAL

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AND ADVERSE EFFECTS ON OUR GOVERNMENT-TO-GOVERNMENT RELATIONS IN THE EVENT THAT A DECREE IS ISSUED WHICH RESULTS IN A TAKE-OVER BY CEPE BEFORE A FINAL SETTLEMENT WITH GULF. I WILL ARGUE THAT THE GOE HAS FAILED TO ABIDE BY THE CONDITIONS IN THE USG-GOE MEMORANDUM AND THAT VARGAS HAS ALREADY MADE EXCESSIVE CLAIMS AGAINST GULF, REDUCING GULF'S BOOK VALUE BY SOME \$40 MILLION. IT IS THEREFORE IMPERATIVE THAT GULF HAVE SOME GUARANTEE OF PAYMENT AT AUDITED NET BOOK VALUE BEFORE SIGNING ANY FINAL AGREEMENT TO TRANSFER ITS ASSETS TO CEPE. BLOOMFIELD

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